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Germany's value to ESDP and European defense cooperation

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3.9.2002

European efforts to create a common Security and Defense Policy (ESDP) as part of the European Union's (EU) wish to play a stronger political role in world affairs are paradoxical. While officials in Brussels, on the one hand, are eagerly developing scenarios how the EU could lead its first international mission abroad, its member countries, on the other hand, cannot agree on ways to drastically improve defense spending or defense cooperation. Although the latter is a goal of European integration clearly headed for the long run, it needs to be addressed now. Across Europe, too little is spent on defense so that the EU would be able to undertake much more than peacekeeping missions like Task Force Fox in Macedonia. In order to bridge that gap and to safeguard the success of prospective and immediate operations, the EU and NATO are working closely to arrange the Berlin-plus agreement which would allow the EU to draw on NATO military assets in any given crisis. Should things turn nasty, for instance in Macedonia, the EU could make use of planning capabilities and military tools that it still does not have. So far, however, this issue is beset by struggles between Turkey and Greece, which both disagree on the Berlin-plus arrangements. While the Spanish EU Presidency came close to solving the problem this year, the Greek government refused to accept a proposal made during the Seville summit in June that concluded Spain's six-month presidency. This came at no surprise since Greece is next on deciding over ESDP matters. Its presidency begins January 1st, 2003 but since the acting presidency -Denmark- is not participating in the ESDP, Greece is already mandated to make decisions.

During the Spanish EU Presidency, a few issues have well been put forward. Spain has a) addressed the need to establish a EU Defense Ministers Council, something that did not yet exist on a regular basis and b) to establish more regular meetings of the national armament directors to enhance cross-border defense cooperation. Defense cooperation must not only begin at the industrial level but be actively supported and strengthened at the governmental level. One important step to overcome specific defense shortfalls in the long run -if the defense budgets are not increased significantly- could be specialization through an industrial consolidation that is guided through government-to-government agreements. This could be one way to maintain military forces that are interoperable with U.S. forces in the future and also maintain a European industrial base that is capable. However, this strategy seems not to be advancing well since it touches upon some of the most fundamental national questions of sovereignty and national interests, where consensus is only hard to achieve. Decisive countries within the EU framework that should be driving this industrial consolidation as well as governmental cooperation -Great Britain, France, Spain, Germany and Italy- seem to be going different paths.

Take Germany: Experts -nationally as well as internationally- are puzzled over Germany's defense industrial policy. The government's and Defense Ministry's decisions seem less rational and less predictable, the closer we go towards the elections September 22nd. Precisely the outcome of the German elections is a determinant for the future of the German defense industrial basis, the European defense industrial cooperation and, last but not least, the outcome of the ESDP. Whatever coalition will form the new government in Germany, it will have a say on how the national industry will position itself and what consequences it will have for a market segment that is continuously consolidating. A new government will also have to make decisive decisions on important European defense collaboration programs.

While the lucrative aerospace sector has been consolidating in large parts, tendencies are visible in the naval shipbuilding and land armament sectors. In these two sectors especially, the German government still has chances to develop and pursue a strategy. However, not for too much longer since it refused to use its potential for quite some time. Although free market developments without pressure from governments are favorable circumstances, the situation is much more differentiated and difficult when it comes to marketing defense goods. In many cases, the economic prosperity of a given company here does not only depend on the national procurement side but also how a government supports its defense industrial base and promotes it. It is not about exaggerated national lobbying but rather supporting the ESDP process by complementing it with a strong defense industrial base. Each member state should be in the position to bring its core industrial capabilities to the table for this process. Therefore, it is the responsibility of every single state to position its industries for this European or transatlantic defense cooperation. But in critical areas like the naval shipbuilding and land armament industry, the political decision-makers seem to be lacking long-term strategic visions and initiatives.

Several developments out of the land armament, naval shipbuilding and missile branches may illustrate this: Completely out of the blue came a decision in July by the German Defense Ministry's Procurement Chief that hammered the land armament industry. The only major procurement program -the new infantry fighting vehicle "Panther"- had been cancelled, although the Defense Ministry had openly supported the development of the "Panther" only weeks before. After renewed negotiations between the Defense Ministry and the land armament companies over a "replacement of the replacement" for the Marder infantry fighting vehicle, all involved came to the

conclusion that only a new system approach would meet the Army's operational requirements. It was a conclusion that everybody had known before but the Ministry had put enough pressure on the land armament industry to achieve a system development at a much reduced price. While the renewed and tough negotiations achieved a reduction from 285 million Euro down to probably less than 200 million Euro, the game could have been brought home smoother and with less medial outrage the program gained through the previous cancellation. The Ministry's argumentation that the "Panther" would not be delivered soon enough in 2008 and that the Army needed a replacement by 2004 did not stand for two reasons. First, the deliveries of the new variant, that will be produced by Rheinmetall Landsysteme GmbH, Kiel and Krauss-Maffei Wegmann, Munich through the joint venture Panther System und Management GmbH, will occur in only few numbers in late 2005. The bulk of the 410 new infantry fighting vehicles will realistically come between 2006 and 2008. Secondly, the Ministry and the political decision-makers knew all too well for quite some time that the 2135 Marder infantry fighting vehicles -now over 30 years old- needed a suitable and speedy replacement. Large military procurement programs, not a new conclusion, simply are time consuming.

Anything other than a new system approach would have left a German land armament industry disrupted and without a meaningful order portfolio. Not funding a new infantry fighting vehicle would therefore have significant industrial -and defense- political consequences. Germany would run risk of losing core competencies here like in the naval shipbuilding sector. While Rheinmetall and Krauss-Maffei Wegmann have done their bit by creating the 50-50 joint venture Panther System und Management GmbH, the rest now depends on the goodwill of the German government. The government previously pressured its two land armament giants to merge completely, which did understandably not occur all that fast. However, Panther System und Management GmbH is probably a first step in the right direction by the two system houses. It will still take some time until Germany's land armament sector has merged completely just as it happened in the United Kingdom with the takeover of Vickers by Alvis. Interestingly though, the German land armament industry has been consolidating continuously over the last ten years though which may be a precursor for the road ahead. For instance, Rheinmetall has taken over several national and international firms. According to own calculations, the company has spent some 500 million Euro for this consolidation. Krauss-Maffei Wegmann has also acquired smaller companies on its way to become a leading main battle tank manufacturer. However, before one can continue to talk about consolidation, the companies need realistic procurement programs to maximize production. However, only 15 percent of all national procurement is spent on Army programs. At this point, more than 50 percent of this year's procurement budget (~3.5 billion Euro) is being spent on Air Force programs as well as 25 percent on Navy programs.

Although this change in priorities is consistent with the new way of modern war, the Army equipment in Germany's armed forces needs to be modernized extensively. After all, the German Army is the branch that, at this point in time, carries the heaviest burden in Bundeswehr commitments abroad. But not so the corresponding industry sector. Between 1989 and today, the number of employees in the business area Armored Vehicles decreased from 44.000 to 10.000. The overall order portfolio shrunk from 1.3 billion Euro to 256 million Euro per annum. With trends like these, the defense industry is losing confidence in the German government that things will pick up. It is not only about getting large orders but a question of principle. Two years ago in October 2000, the German Chancellor Gerhard Schröder and then-Defense Minister Rudolf Scharping had agreed with leading officials from the naval shipbuilding and land armament companies to safeguard their core competencies and to maintain the system capacity of these firms. Was this only lip service? In fact, the only ones who acted so far where foreign investors as the prominent example of Howaldtswerke Deutsche Werft (HDW), Kiel in naval shipbuilding shows.

HDW -a leading firm in underwater shipbuilding- is now in American hands after U.S. investor One Equity Partners, a daughter of Bank One Corp., Chicago, acquired a 75 percent share in HDW in March. This move came out of the blue and was quite a surprise to German defense experts and government officials alike. Why would the German government not intervene in such a sale, had it a strategic interest in safeguarding core competencies? The U.S. does not possess the technology needed to build diesel-powered non-nuclear submarines; those that it wants to sell to Taiwan. Although HDW officials emphasized that the core business would remain in German hands, it is clear that a majority shareholder will be able to access all relevant company documents. With this, Germany will not be able to keep its technology superiority in the submarine business disclosed.

What may be more worrisome: Germany is turning out to be a difficult and shaky partner in international cooperation programs, although its firm- and steadiness is a precondition for an effective ESDP. By this, it puts its own defense industrial sectors at risks and casts a long shadow over Germany's credibility as a partner for defense cooperation. This year still, Germany has to make important decisions in the areas Strategic Airlift and Missile Industry. The longer it waits to decide, the more the national defense sectors will be affected and Germany's credibility will fade. Only recently, a British Defense Ministry official said that partner countries would not want to touch Germany with a "barge pole" when it comes to defense cooperation. Some of Europe's largest defense cooperation programs ever await German parliamentary approval to be finally lifted off. They include the eight-nation program A400M, the six-nation program Meteor medium-range air-to-air missile and the five-nation IRIS-T short-range air-to-air missile. These programs are all sought to give Europe some defense capabilities in crucial areas needed to sustain future military operations in any given crisis scenario. All the more, these multi-billion Euro programs would be effective to create high technology jobs throughout Europe. Industrial officials have said that A400M alone would create more than 10.000 direct jobs across Europe and 40.000 indirect jobs.

Further, the situation for the 3.400 employees of the two principal German missile houses EADS LFK-Lenkflugkörpersystem GmbH, Unterschleißheim and Bodenseewerk Gerätetechnik (BGT), Überlingen could dramatically worsen, should key programs like Meteor or IRIS-T not be approved. In the event of a non-approval, these companies could be forced to enter European or transatlantic partnerships at a much faster rate than may be

desirable. EADS has already announced that it will try to integrated LFK into the European missile house MBDA as the fourth national pillar by the end of the year. Meanwhile, for several reasons, the national consolidation between LFK and BGT still seems distant. BGT is at the same time exploring ways to foster its transatlantic ties with Raytheon, while the U.S. company -strengthened through the huge defense boosts after Sept. 11- also seems to have an interest in acquiring BGT totally. However, if this can be realized depends to a large extent on Diehl Stiftung & Co, which is the mother company of BGT. At this point in time, the family-owned Diehl Stiftung seems to have no interest to sell its missile company to a U.S. investor.

Conclusion

It is not the sole responsibility of governments to pave the way for its defense industries to position themselves strategically. But without their support, not much can be achieved either. The goal for Germany's government must be to achieve synergies and to try to prevent a further de-coupling of defense firms. One way of doing this is to bring forward important procurement programs that have long been outstanding. If the country's defense budget maintains the current course, Germany will neither be able to fund ongoing procurement programs nor begin new ones as of 2006. By then, costs for ongoing programs will exceed by far the existing procurement budget. If Germany really wants to buy 73 A400M, 180 Eurofighter, 1.800 IRIS-T, 600 Taurus missiles, over 1.000 infantry fighting vehicles; 10-12 Maritime Patrol Aircraft, 80 Tiger helicopters, 134 NH-90 transport helicopters, then the Ministry needs more money to finance these programs. According to estimates, some 1.5 billion euros alongside the 700 million anti-terror money per annum would do the job! If this additional money is not provided, then the government must sharply reduce the final numbers in several of these programs at the expense of German credibility. In the case of the A400M or Meteor, Germany has already committed itself too deeply that it could find an easy way out. A reduction in other programs here and there would probably be acceptable and even make sense.

Finally, what is important is that the Ministry and the national industry will work even closer together in the future. Only through a better understanding of each other's problems and necessities, industry can maintain its core competencies and the Ministry keep its face when it comes to big procurement programs. Perhaps, Germany but also Europe should think about a high-representative for defense procurement affairs. What is lacking today is a chain that links industry with government. A "Javier Solana for defense industrial purposes" could be one key to creating a more common approach not just in national defense but perhaps also on the way to a European defense cooperation. Without a clear German defense strategy whose goal is to maintain a strong and well-equipped Bundeswehr and a defense industrial policy that seeks to stabilize the national and European defense cooperation could threaten the success of ESDP and severely undermine transatlantic security and industrial relations.

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Annex: German Defense Budget 2001 and 2002

Spending Resorts	2001 in Billion Marks	%	2002 in Billion Marks	%
I. Service Costs	24.157.762	51.71%	24.426.969	53.03%
Personnel	4.375.107	9.36%	4.586.425	9.96%
Materiel	7.057.991	15.11%	6.848.041	14.87%
Other Service Costs				
II. Investment Costs	2.246.084	4.81%	1.659.857	3.60%
R & D	6.822.420	14.60%	6.892.356	14.96%
Procurement	997.019	3.60%	1.196.422	2.95%
Potential increase	1.683.497	0.92%	1.359.762	0.63%
Military Installations	428.830		289.068	
Other Investments				
III. Efficiency RENDITE	-25.565	-0.11%		
Plafond (without increase potential)	46.721.844	100%	46.062.480	100%
Plus Anti-Terror Fund after Sept. 11			1.495.529	
Money at disposal	46.721.844		47.558.009	
with increase	997.701		1.196.422	

potential				
TOTAL	47.718.863		48.754.432	

(Defense Budget 2002 in comparison to 2001; Source: German Ministry of Defense; The budget was already delivered in Euros, but to avoid confusion, the author recounted in Deutsch Marks at the last known rate of 1 € = DM 1.95)

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